

197—12.3(534) Home loans.

12.3(1) Home loans shall be repayable in installments except that a loan authorized under 12.3(2)“c”(3) or a home loan under which an association purchases an annuity from an insurance company on behalf of a borrower need not require any payment until maturity.

12.3(2) Adjustments to rate, payment, balance or term. Subject to limitations on adjustment that are set forth in the loan contract, an association may adjust the interest rate, the payment, the loan balance or the term to maturity as follows:

a. Interest rate. Adjustments to the interest rate shall correspond directly to the movement of an interest-rate index or an index that measures the rate of inflation, or one that measures rate of change in consumer disposable income, which is readily available to and verifiable by the borrower and is beyond the control of the association. The interest rate may be decreased at any time.

b. Payment. The payment may be decreased to reflect a decrease in the interest rate or in the loan balance, and may be increased if:

(1) The contract requires that increases be made pursuant to a formula or schedule set forth in the contract that specifies the percentage or dollar increase in the payment per adjustment;

(2) The increase reflects an increase in the interest rate or the loan balance; or

(3) The contract provides for payment increases tied to increases in a national or regional index that measures the rate of inflation or the rate of change in consumer disposable income, is readily available to and verifiable by the borrower, and is beyond the control of the association.

c. Loan balance (principal plus deferred, capitalized interest). The balance of a home loan may be increased or decreased if:

(1) The contract provides for changes in the interest rate and payment;

(2) The contract provides for the deferral and capitalization of interest;

(3) The contract provides that changes in the loan balance shall be tied to changes in a national or regional index that measures the rate of inflation, is readily available to and verifiable by the borrower, and is beyond the control of the association;

(4) The contract provides for lump-sum disbursement of the loan proceeds or for scheduled periodic disbursements to the borrower made directly by the association; or

(5) The contract provides that a portion of the consideration to be received by the association in return for making the home loan shall be interest in the form of a percentage, fixed at or before the time of loan closing, of the amount by which the current market value of the property exceeds the original appraised value.

d. Term to maturity. The term of a home loan may be increased or decreased to reflect an increase or decrease in the interest rate, the payment or the loan balance.

12.3(3) Index—notice of adjustment. In making any of the adjustments described in this subrule, any combination of indices or a moving average of index values may be used as an index, and an association may use more than one index during the term of a home loan. The initial index to be used by the association shall be one which was published within the six-month period immediately preceding the closing of the loan. Adjustments shall be based on the difference between

a. The index value identified by the association at time of loan commitment or loan closing, or, if one index is substituted for another during the loan term, the value most recently available as of the date of substitution, and

b. Its value as of the time of adjustment or as of the time within which notice of adjustment must be given. At least 30 but not more than 120 days prior to an adjustment of loan terms, and at least 90 but not more than 120 days prior to the expected maturity of a nonamortized, or partially amortized loan, an association shall provide the borrower with notice of the adjustment or maturity, respectively. However, where the contract provides that changes in the interest rate shall occur more frequently than changes in the payment, the association need not notify the borrower of changes in the rate, or of changes in the loan balance or term resulting from a rate change, until notice of a payment adjustment is given. In addition, where the loan contract sets out a schedule of adjustments to the payment, notice need not be given of each payment change made pursuant to that schedule.

12.3(4) Loan-to-value ratio.

a. A loan shall not at the time of origination exceed 90 percent of the value of the security property. If the loan is insured by the Federal Housing Administration or guaranteed by the Servicemen's Readjustment Act of 1944 (37 U.S.C., Sections 1801 to 1824), as amended, or is insured or guaranteed, in whole or in part, by any other duly constituted federal instrumentality or private mortgage insurer approved by the superintendent, or if the home loan is made to people with low or moderate income as a part of programs approved by the Iowa finance authority, it may be made regardless of the requirements for other home loans contained in this subrule.

b. During the term of the home loan, the loan-to-value ratio may increase above the maximum allowed in paragraph "*a*" of this subrule, if the increase results from a change authorized by subrule 12.3(2). Continued compliance with loan-to-value limitations will be assumed if the original ratio met the requirements of paragraph "*a*" of this subrule, but in no event may the loan balance exceed 100 percent of the original appraised value unless the loan is insured or guaranteed. If the loan balance has increased since the inception of the loan, the loan contract may provide that the payment be adjusted at least once each five years, beginning no later than the tenth year of the loan, to a level sufficient to amortize the loan at the then-existing interest rate and loan balance over the remaining term of the loan.

12.3(5) Loan on cooperatives.

a. Home loans may be made on the security of cooperative housing developments ("blanket" loans). The association shall require that the cooperative housing development maintain reserves at least equal to those required for comparable developments insured by the Federal Housing Administration.

b. Home loans may be made on individual cooperative units. These loans may be made on the security of

(1) A security interest in stock, a membership certificate, or other evidence of ownership issued to a stockholder or a member by a cooperative housing organization, and

(2) An assignment of the borrower's interest in the proprietary lease or occupancy agreement issued by the organization.

12.3(6) The association shall pay the cost of any appraisal of the security property obtained by the association after loan closing but prior to maturity of a home loan unless the borrower specifically requests the appraisal or the appraisal is made pursuant to the borrower's request to modify or refinance the loan.